

**PRESENTATION OF THE
REAL ESTATE COMMISSION**

TO THE HOUSE COMMITTEE ON
CONSUMER PROTECTION & COMMERCE

TWENTY-EIGHTH LEGISLATURE
Regular Session of 2015

Wednesday, February 11, 2015
2:30 p.m.

**TESTIMONY ON HOUSE BILL NO. 571, H.D. 1, RELATING TO CONDOMINIUM
CONVERSIONS.**

TO THE HONORABLE ANGUS L.K. MCKELVEY, CHAIR,
AND MEMBERS OF THE COMMITTEE:

My name is Nikki Senter and I am the Chairperson of the Hawaii Real Estate Commission ("Commission"). The Commission appreciates the opportunity to present testimony on House Bill No. 571, H.D. 1, Relating to Condominium Conversions.

It appears that the intent and purpose of House Bill No. 571, H.D. 1, is to assure that the appropriate tax revenues are collected on short term rentals conducted from hotels that were converted to condominium units. The Commission appreciates the intent of House Bill No. 571, H.D. 1; however, it opposes certain proposals and has the following comments and questions:

- Given the Commission's limited expertise and capabilities to collect and retain general excise tax and transient accommodation tax information on hotel or condominium hotel units, the Commission respectfully considers removing that responsibility from the Commission, as proposed in this bill;
- House Bill No. 571, H.D. 1, mandates the collection by the Commission of tax-related information from hotels that have converted to condominium

status but does not state what the Commission is to do with that information. Again, the Commission respectfully asks the Committee to consider whether these functions are properly placed with the Commission;

- The title of the bill appears to embrace more than the subject of "condominium conversions." House Bill No. 571, H.D. 1, includes another subject relating to the conduct of a condominium hotel operator ("CHO");
- Condominium hotels have historically been governed by Hawaii Revised Statutes ("HRS") Chapter 467, the Real Estate Licensing law; placing additional requirements and identical statutory provisions into HRS Chapter 514B, the Hawaii condominium law would cause confusion to the consumer, developers and real estate brokers conducting CHO activity and to those non-licensees conducting CHO activity via the Real Estate Branch's registration process.

Thank you for the opportunity to present testimony in opposition to House Bill No. 571, H.D. 1.



Eric Gill, Financial Secretary-Treasurer

Hernando Ramos Tan, President

Godfrey Maeshiro, Senior Vice-President

Tuesday, February 10, 2015

The Honorable Angus McKelvey, Chair
and Members
Committee on Consumer Protection & Commerce
Hawaii State Senate

TESTIMONY submitted on behalf of UNITE HERE! Local 5

Re: HB 571, HD 1 Relating to Condominium Conversions

Chair McKelvey and members:

UNITE HERE Local 5 is a local labor organization representing 10,500 hotel, health care and food service workers employed throughout our State. We stand in strong support of HB 571, HD 1 and ask for your Committee's support in advancing the measure.

First and foremost, it would be a mistake to interpret the intent and scope of HB 571, HD 1 as a measure that simply entertains debate regarding the potential pros and cons of "condominium conversion." While the opponent of this measure would like you to believe such, a careful look at HB 571, HD 1 simply acknowledges a known fact – that changes in our #1 industry in terms of ownership and type of room accommodations (hotel vs. condo vs. condotel vs. timeshare, etc., etc.) requires immediate action on the part of the State.

As a community dependent on tax revenue generated by the tourism industry, in particular revenue generated in GET and TAT from the sale of hotel rooms, we can no longer sit idly by. The ongoing and growing trend of individual vacation rentals, condotel and timeshare operations away from traditional hotel room operations is something we must get ahead of, and the State must lead. Not least because the once dependent stream of tax revenue generated from hotel rooms is now being threatened.

HB 571, HD 1 is reasonably designed to generate the data the State needs to better understand the impacts of condotel conversions on our visitor industry. To address the concerns of the Real Estate Commission, once reliable data is collected, the Legislature can then take the appropriate steps in determining what to do next, but the Legislature must first understand what the tax impact could be. And while we recognize the privacy concerns raised by the one opponent to the measure, this bill is about protecting the State's financial interests by understanding the impacts of the visitor plant on our tax base, and by extension, our communities.

As you know, tourism accounts for nearly 22% of the State's gross domestic product, generating \$14.7 billion in visitor expenditures and over \$1 billion in tax revenue in 2014 alone. The tax generated by the industry is revenue that we – constituents and the State alike - directly benefit from.

The industry also provides 159,000 direct and indirect jobs annually. Good jobs here mean money spent here and taxes paid here - a better life here.

Fewer traditional hotel rooms means fewer good jobs. Less income tax, less transient accommodations tax, and less general excise tax mean less of a future for all of us – it makes it harder to save, to own a home, to spend money at local businesses, to fund the government services and programs we all need, and attract proper investments in tourism development.

Tourism is what we have. The investment we make as a community and as taxpayers towards tourism is substantial, but are we getting a good return on our investment?

- The State Legislature allocated \$82 million in 2014 in order to brand, market and continue to keep Hawai'i's tourism industry successful.
- Our City and State continue to approve project after project worth billions of dollars in revenue for the banks and developers.

But

- A recent HTA study estimates there are over 22,000 individual vacation units being rented out across the state. That's almost as many hotel rooms as there are in all of Waikiki (23,323).
- Non-traditional units are hard to regulate. They represent not just lost of jobs, but a loss of tax revenue as well.
- Many of those individual vacation units are in condotel buildings.

Condotels cost tax dollars

- When condotels are constructed or hotels are converted to condotels, buyers often choose not to rent out their units at all, resulting in a total loss of TAT, GET and income tax revenue to the state & city. Many owners choose not to put their units into the hotel "rental pool" and instead rent them out individually or through smaller operations.
- We estimate **the average TAT and GET lost is over \$8,000 per unit per year for every unit used as a residence instead of a rental at a condotel property.**
- We estimate that over 45% of the more than 10,000 rooms in condotel buildings statewide are not in their respective properties' rental pools.
- At the Aqua Island Colony, for example, the State is losing over \$2 million per year because this property is a condotel instead of a hotel.

We are all vested in the ongoing success of tourism. We want to continue to help Hawai'i reach its full potential as both a top visitor destination and the best place to continue to raise our families.

We ask for the Committee's support in moving HB 571, HD 1 forward.

Thank you.



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HOUSE OF REPRESENTATIVES
THE TWENTY-EIGHTH LEGISLATURE
REGULAR SESSION OF 2015

COMMITTEE ON CONSUMER PROTECTION & COMMERCE
Representative Angus L K McKelvey, Chair

2/11/2015
HB 571, HD 1
Relating to Condo Conversion

Chair Brower and Members of this Committee, my name is Max Sword, here on behalf of Outrigger Enterprises Group in opposition to HB 571.

While we understand the concern about hotels being converted to timeshares or condos, the fact of the matter is that conversions are driven by the high cost of owning, operating and improving Hawaii hotels. This reality leaves some hotel owners and operators with little choice but to convert. Compared to the difficulties associated with financing a new hotel project, financing a new timeshare project or converting an existing building to a condominium or timeshare simply pencils out.

HB 571 will not change that reality further and does not actually do anything to directly address condominium conversions. Instead HB 571 proposed the following ill-advised disclosure and reporting requirements:

- a) HRS Section 514B-84 would be amended to require that a developer report taxes (which has not been defined or specified) related to prior hotel operations of any structures or units to be converted to a condominium. Unfortunately such taxes have no bearing on how each condominium unit will be used since a unit buyer can chose to self-rent their unit for transient accommodations or use the unit for purposes other than for transient accommodations altogether.
- b) HRS Section 467-30 would be amended to require condominium hotel operators to report on how each unit is used on a month by month basis and on the number of employees working for such condominium hotel operator. Requiring this type of disclosure is especially concerning because an operator has no control over individual unit owners who chose to self-rent their units.

Requiring the disclosure of otherwise confidential pre-conversion tax information of the prior hotel operator as well as confidential information about the number and type of units managed as well as numbers of employees of operators who manage a rental program at a condominium project is especially concerning because such confidential information can be used by competitors. Equally important, none of these information disclosure or reporting requirements would apply to any unit owners that choose to self-rent their units.

Outrigger does not support this bill and thank you for allowing us to testify.